BRADKEN

Media / Market Release

Tuesday, 10 February 2015 For immediate release

	Dec 2014	Dec 2013	Change
NPAT	($92.6m)	$38.1m	(343%)
EBITDA	$14.5m	$86.2m	(83%)
Underlying NPAT	$13.8m	$38.1m	(64%)
Underlying EBITDA	$72.3m	$86.2m	(16%)
Underlying EBITDA Margin	14.6%	15.3%	
Sales Revenue	$495.4m	$563.6m	(12%)
Operating Cash Flow	$16.8m	$67.0m	(75%)
Underlying Earnings per Share (based on weighted average number of shares)	8.3 cents	22.5 cents	(63%)
Dividend per Share	0 cents	15.0 cents	
LTIFR [1]	4.1	4.1	

Notes: 1. Lost time injury frequency rate (LTIFR) is the number of occurrences of injury divided by the total number of hours worked by all workers, for each one million hours worked.

Key Outcomes

- Sales revenue was 12% lower and underlying EBITDA was $72.3 million compared to the previous corresponding period. The order book closed slightly higher than in the previous period.
- Management's efforts to rebase the cost structure and maintain competitiveness of the business for long term growth are well advanced, with direct costs reduced in line with lower sales resulting in margins being maintained. Initiatives to reduce the overhead cost base are on target with $21 million of cash overhead reductions forecast in 2015 growing to $33 million in 2016. Total cost of restructuring to date is $47.1 million and related plant and equipment impairment is $51.1 million.
- Impairment charges were taken, mainly relating to businesses exposed to the mining capital equipment cycle.
- Cash flow was impacted by one-off restructuring costs and higher inventory levels with some of the higher inventory relating to changes to the selling model and some being transitionary, associated with the restructuring.
- Net debt was broadly in line with the previous corresponding period, however gearing ended higher than target with net debt impacted by foreign exchange translation.
- Consequently, the Directors have determined to not pay a half year dividend this period to ensure adequate flexibility within the business is maintained as it transitions into the current operating environment.

Business Review

Ongoing volatility in a number of commodity and mineral markets to which Bradken is exposed, continued to persist in the first half. Against this backdrop, the Company reported sales revenue of $495.4 million, which is 12% lower than the previous corresponding period.

The Company was able to maintain its quality of earnings against this challenging backdrop with a gross margin of 32.5% and underlying EBITDA margin of 14.6% for this period.

On an underlying basis, EBITDA fell 16% to $72.3 million, as a strong focus on cost reductions throughout the period limited the impact on profit of the volume decline.

Statutory Net Profit After Tax was however significantly impacted by a number of one-off charges and costs totalling $122.1 million before tax, more than 80% of which were non-cash, that related to the manufacturing restructure and to impairment of goodwill resulting in a Net Loss After Tax of $92.6 million, compared with a $38.1 million Net Profit After Tax in the previous corresponding period.

Operational Review

Market share gains in North America and Africa by the Mineral Processing Division were delivered on the back of cost reductions resulting from the transfer of mill liners to Xuzhou. Significant progress was made in reducing product costs globally with the announcement of a foundry acquisition in India, increased utilization of Xuzhou for mill liner manufacture and phasing out of the Australian mill liner foundries. Business focus continues on winning new customers with the ramp-up of product development capability and the execution of the manufacturing strategy.

In the Mining Products Division, the Ground Engaging Tools and Buckets business completed development of a full range of products required for the domestic market and won new supply contracts with an estimated value of $25 million per annum. The transfer of Ground Engaging Tool products manufacture from Welshpool to Runcorn and Xuzhou continued on schedule. In the Crawler Systems business, direct sales in the period grew by over 50% and supply agreements were negotiated with major miners which should deliver increased revenue in the second half. The transfer of Crawler Shoes and small sprockets to Xuzhou continued, with inventory increasing to support higher levels of direct sales. The Fixed Plant business continued its expansion of manufacturing in China with the addition of manufacture of ceramic mounted rubber products. The business gained market share in iron ore with an expanded range of products, while the oil sands region in Canada suffered with a down turn in project activity.

In the Engineered Products Division, sales in the USA remained flat with some improvement late in the period. The Industrial Products business saw sales increase, reflecting a greater demand for freight rail locomotives, following significant growth in the transportation of crude oil by rail. Sales were down in the Energy business compared with the previous corresponding period, due to delays in natural gas pipeline projects and deferrals in upgrades of aging power generation plants.

The Australian Industrial business was merged into the Rail business to form the Transport and Industrial Products Division in order to increase focus on the supply of components across a range of industries. The non-project portion of the business was impacted by reduced sales to domestic mining OEMs. Rail car sales were down 150 units in the period to 453 units.

The Cast Metal Services business increased its internal supply to Bradken's North American foundries as an early precursor to broader supply in the market. The business made excellent progress in the reduction of working capital along with completion of commissioning of new plant and equipment in Xuzhou to manufacture refractories and coatings

Financial Overview

Sales revenue fell 12% to $495.4 million when compared to the previous corresponding period as a result of decreased sales of rail cars ($33 million) and lower sales to mining OEMs ($31 million). Despite the fall in sales revenue, margins were generally maintained at 32.5% in line with the long term trends. In addition to the direct cost reductions made to maintain margins, the ongoing manufacturing reorganisation and restructuring has delivered cash overheads savings during the half of $10 million and will deliver $21 million for the full year.

Underlying EBITDA was $72.3m, a reduction of 16% on the previous corresponding period largely due to the fall in revenue. With over 50% of earnings now denominated in USD, exchange rate volatility is having a material positive impact. Underlying EBITDA would have increased by $2.5 million if calculated at the period end rates.

NPAT was a loss of $92.6 million after allowing for the following items:

- restructuring costs of $25.5 million before tax related to the manufacturing reorganisation and restructuring of the overhead cost base;
- impairment of plant and equipment of $31.5 million related to the restructuring and closure of high cost plants;
- impairment of intangibles with charges of $39.5 million before tax as the Company is unable to form a view that there is a short to medium term recovery for mining capital products; and
- impairment of the investment in Austin Engineering of $25.6 million.

Net debt (excluding lease liability) increased $65 million during the period to $434 million. The majority of the increase ($39 million) was due to the revaluation of the USD denominated debt at the end of the period. The remainder of the

increase was due largely to a temporary build up in inventory which will be converted into cash in the second half. The higher net debt pushed gearing (EBITDA / net debt) up to 2.68, however this is forecast to reduce to under 2.50 by the end of June 2015.

Overall, net capex spend for the half year was $22.3 million, which was 32% lower than the previous corresponding period. Although new capex was largely restricted, there were a number of cost reduction and growth projects coming to completion in this period. Business capex in the second half will be $45 million, which includes the acquisition of the Indian foundry.

Surplus properties totalling around $25 million are to be sold with $15 million expected in the second half. To support growth initiatives, the sale and leaseback of a parcel of long term strategic Australian facilities is being reviewed which could release up to a further $75 million in funds in the second half.

Human Resources

The Global Lost Time Injury Frequency Rate (LTIFR) for HY15 was 4.1, which was the same as that of the previous year's performance, with 26 sites being Lost Time Injury (LTI) free over the last 12 months.

Significant employment downsizing continued in the first half from 4,970 to 4,426 as we continue to reshape the business.

Strategy and Outlook

Mr Hodges said, "We expect a slight increase in overall sales revenue in the second half with an incremental improvement in margins due to a more favourable mix."

Improving mine production volumes are expected to underpin consumable sales along with the impact of market share gains of the first half for Ground Engaging Tools, Crawler Systems and Mineral Processing.

Capital product sales are expected to decrease due to a fall in new rail car order intake, requiring further restructuring of the cost base to appropriate levels.

Business remodeling, which is proceeding ahead of previously announced plans, will continue throughout calendar year 2015, placing the company in a strong position to maximise returns at this level during the cycle.

Mont-Joli (Canada) foundry will operate at full capacity and Xuzhou (China) foundry will continue to ramp-up production throughout the second half.

The low cost Indian foundry acquisition which was announced on December 2014 will be completed in March.

"The Directors' decision to suspend the dividend, no further working capital increases and sale of surplus properties are expected to reduce the gearing to below 2.5 times by the end of the financial year," said Mr Hodges.

Ends

For more information contact:

Steven Perry
Chief Financial Officer
T +61 2 4926 8605 F +61 2 4926 8201
M +61 438 084 356 E sperry@bradken.com

Brian Hodges
Managing Director
T +61 2 4926 8604 F +61 2 4926 8201
M +61 438 700 229 E bhodges@bradken.com

More about Bradken

Bradken is the leading supplier of differentiated consumable and capital products to the global resources, energy and freight rail industries. The Company employs almost 4,500 people in 34 manufacturing facilities and more than 30 sales and service centres across Australia, New Zealand, USA, Canada, the United Kingdom, Indonesia, Malaysia, South Africa, South America and China. The Company which became a publicly listed company in August 2004 has been in business for over 90 years and operates four market-focused divisions and a separate business.

The **Mining Products Division** is a global business which manufactures and supplies ground engaging tools, wear plate and liner products, crawler systems and associated refurbishment and maintenance services. These products are primarily consumable wear parts for mobile and fixed plant used extensively throughout the mining industry.

The **Mineral Processing Division** is a global business which manufactures and supplies mill liners, crusher liners and associated refurbishment and maintenance services. Mill liners and crusher liners are consumable products, which are regularly replaced by operators of mills and crushers in the mining and quarrying industries.

The **Transport & Industrial Products Division** designs, manufactures and supplies rail freight rolling stock, cast and general spares, and provides rolling stock maintenance and refurbishment services. Its product and service offering, as in all Bradken's divisions, is customised to meet specific customer requirements. It manufactures and supplies iron and steel cast products, mainly consumables, directly to end users for use in their process plants or manufacturing processes. The products can vary from products manufactured to the client's specification, customised products and products based on Bradken's proprietary designs.

The **Engineered Products Division** is a leading North American based supplier of large (greater than 4,500kg), highly engineered steel castings to the high growth global energy, mining and rail markets. Headquartered in Atchison, Kansas, the Division employs approximately 1,200 people across five steel foundries and three machine shops in North America.

Cast Metal Services is a global business which manufactures and distributes consumable steelmaking and foundry industries, the metal recycling business, which support the Company's foundry business and the corporate activities of the Bradken Group. The Metal Recycling business sources mild steel, stainless steel and alloy scrap steel largely from mine sites and industrial operations to supply the Company's foundry operations.

For further information about Bradken visit bradken.com